

WASHINGTON, D.C. – Congressman Joe Sestak (D-PA) voted for the Expanding American Homeownership Act of 2007 (H.R. 1852), a bill that will enable the Federal Housing Administration (FHA) to provide lower interest rates to first-time and subprime borrowers, offer refinancing to families struggling to meet their mortgage payments, and create more affordable rental housing. — “Affordable housing is critical to economic security of our nation. For the third quarter in a row, the number of foreclosure notices hit a record high, and hundreds of thousands of American families across our country are concerned about losing their homes. Mortgage payments are increasing as interest rates for subprime loans continue to rise,” said Congressman Sestak. “The Expanding American Homeownership Act will reverse these trends by allowing up to 40 percent of families with subprime loans to qualify for more affordable fixed rate loans so that they can keep their homes.”

Subprime lenders provide mortgage credit to borrowers with imperfect credit histories, but they charge higher interest rates that often lead to foreclosure. This legislation will increase the market share of mortgages insured by FHA, which will provide more affordable rates and mortgage terms for subprime borrowers and promote greater stability in the mortgage market. The bill can help borrowers who have turned to predatory loans in recent years. In addition, it offers refinancing loans to borrowers struggling lower interest rates in the midst of the current turbulent mortgage markets.

To make homeownership more affordable, H.R. 1852 includes a variety of provisions that include: raising loan limits for FHA-backed loans, boosting loan limits in high-cost areas, allowing the agency to vary premiums based on credit risk, modifying disclosure requirements to provide more information concerning mortgage choices, and allowing lower monthly payments for borrowers who make on-time payments for the first five years of a loan. Additionally, the bill extends the maximum loan term on FHA single-family loans to 40 years from 35 years.

Key Provisions of H.R. 1852:

Zero and Lower Down Payments

The bill authorizes zero and lower down payment loans for borrowers that can afford mortgage payments, but lack the cash for a required down payment.

Increasing Borrowing Limits

HR 1852 increases loan limits to make FHA relevant in high cost markets where FHA is currently barred from making loans above the local median home price. The bill sets the loan-to-value limit — the ratio of the fair market value of a house to the value of the loan that will finance the purchase — for FHA-single family loans at 97.75% of appraised value, plus the up-front FHA mortgage premium. In high cost areas, the bill increases the maximum FHA multifamily loan limits in high cost areas to 170% of the basic loan limit from 140%, and raises the limit on a case-by-case basis to 215% of the basic limit from 170%. In places the President has declared disaster areas, the bill authorizes FHA to increase single family loan limits up to 100% of the appraised value of a home, plus closing costs for 36 months.

Counseling and Protections for Higher Risk Borrowers

This legislation more than doubles federal funding for housing counseling to help subprime homebuyers who fall behind on their mortgage payments.

In addition, the bill authorizes the Housing and Urban Development Department (HUD) to require pre-purchase counseling for zero and lower down payment borrowers and high-risk borrowers. It requires the lender to provide the borrower with a list of HUD-approved housing counseling agencies in the area. Borrowers who fall 60-days behind on loan payments must be given notice by a housing counseling entity of the availability of foreclosure prevention counseling.

Additionally, the legislation requires lenders to provide written disclosures of the costs associated with other mortgage options to borrowers applying for zero down or lower down payment loans, so that borrowers can make a more informed decision about the type of loan they should take out. The disclosures would include the additional costs associated with lower down payment loans and the appreciation needed to pay off these loans, including selling costs.

Enhances Reverse Mortgage Program for Older Americans

FHA insures reverse mortgages that can be used by homeowners age 62 and older to convert their home's equity into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home.

The legislation will enhance the FHA reverse mortgage loan program to help seniors pay for health and other expenses using equity from their home, by eliminating a volume cap of 275,000 home equity conversion reverse mortgages that the FHA can insure on reverse mortgages and raises loan limits for seniors so that seniors that own their home can mortgage their home to pay for high health care bills and other expenses, and also reduces by 33% the maximum fee loan originators can charge senior citizens for reverse mortgage loans.

The measure sets a uniform nationwide mortgage loan cap on reverse mortgage loans, equal to the GSE conforming loan limit (\$417,000), and requires FHA to establish limits on the origination fee that may be charged for such loans. It also permits reverse mortgage loans to be used in cooperative units.

Borrower Payment Incentives

The bill requires FHA to provide "payment incentives" for borrowers that make on-time payments for at least the first five years of a loan. For borrowers that did not make a down payment, such incentives would result in a reduction of annual premiums down to a statutory maximum of .55%. For high-risk borrowers, incentives would result in a reduction of annual payments down to the level that would have been charged had they not been high risk. The measure authorizes the department to offer these incentives to borrowers after a period of three years of on-time payments.

Multifamily Loans

The legislation raises FHA multifamily loan limits, so these loans can fully fund construction costs in high cost areas. It also promotes the sale of foreclosed FHA rental housing loans to

localities, so that local communities can maintain affordable rental housing. The bill raises the program's loan limit to \$417,000 from \$362,790 and increases the loan floor \$271,050 from \$200,160.

Affordable Housing Fund

The bill authorizes up to \$300 million a year of funds from FHA excess profits if the FHA has collected premiums sufficient to cover the Mutual Mortgage Insurance Fund's capital ratio requirement and keep it financially sound, to be used for an affordable housing fund.

About the FHA

FHA was created in 1934 to provide mortgage insurance on loans made by approved lenders throughout the United States and its territories. For over 60 years, FHA has been a reliable source of affordable fixed rate mortgage loans. FHA insures mortgages on single family, multifamily, manufactured homes and hospitals, and is the largest insurer of mortgages in the world.

The agency provides mortgage insurance to protect lenders against losses if a homeowner defaults on mortgage loans, which results in lenders bearing less risk. Unlike conventional loans, FHA-insured loans require small down payments, and offer greater flexibility than conventional loans in calculating household income and payment ratios. The cost of the mortgage insurance is passed along to the homeowner and typically is included in the monthly payment.

Born and raised in Delaware County, former 3-star Admiral Joe Sestak served in the Navy for 31 years and now serves as the Representative from the 7th District of Pennsylvania. He led a series of operational commands at sea, including Commander of an aircraft carrier battle group of 30 U.S. and allied ships with over 15,000 sailors and 100 aircraft that conducted operations in Afghanistan and Iraq. After 9/11, Joe was the first Director of "Deep Blue," the Navy's anti-terrorism unit that established strategic and operations policies for the "Global War on Terrorism." He served as President Clinton's Director for Defense Policy at the National Security Council in the White House, and holds a Ph.D. in Political Economy and Government from Harvard University. According to the office of the House Historian, Joe is the highest-ranking former military officer ever elected to the U.S. Congress.